



*ANNUAL
REPORT
2003*

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MESSAGE FROM THE CHAIRMAN

Securities Exchanges Guarantee Corporation Ltd (SEGC) is the trustee of the National Guarantee Fund (the Fund). The 2002 - 2003 financial year was SEGC's sixteenth year of operation. As at 30 June 2003, the net assets of the Fund were approximately \$158.0 million.

During the financial year the settlement of 129 claims on SEGC lodged in a previous year was finalised. These claims related to alleged losses suffered by certain clients of a large financial planning organisation in connection with dealings of a former dealer of ASX. No further claims were made on SEGC during the financial year.

Two other significant developments occurred during the year which may have an impact on the future operations of SEGC and the Fund.

First, ASX announced that it intends to make an application under section 891A of the Corporations Act 2001 that the Fund be "split". The Fund presently fulfils two important functions under the Corporations Act:

- It provides investor protection by compensating investors in the circumstances set out in Division 4 of Part 7.5 of the Corporations Act and Regulations 2001; and
- It provides clearing and settlement support by supporting the integrity of ASX's clearing and settlement facilities and providing the financial backing for ASX related clearing houses.

The proposal to split the Fund involves the payment of monies out of the Fund to a new body, to be called Australian Clearing House (ACH), which will provide clearing and settlement support currently provided by the Fund. In the event that the Fund is split the Fund's sole function would be to provide investor compensation.

Section 891A provides that if the Minister is satisfied that a body corporate specified in the regulations has made adequate arrangements covering all or part of the clearing and settlement system support that Division 4 of Part 7.5 of the Act provides for, the Minister may, in writing, direct SEGC to pay a specified amount to that body corporate out of the Fund. SEGC and the body corporate must comply with the direction and with any applicable conditions to which the direction is subject.

If the proposal to split the Fund is implemented it will remove the Fund's exposure to claims relating to clearing and settlement system support. Those claims, to the extent that they are covered by the specified body corporate (ACH), will not be covered by the Fund. The proposal will also result in a reduction in the amount of the Fund. However, before the Minister can direct SEGC to make a payment out of the Fund the Minister must be satisfied that, after the payment is made, the Fund will still have an adequate amount of assets to meet claims.

The Board contracted PricewaterhouseCoopers to provide it with assistance in considering the proposal to split the Fund. Ultimately, any decision to make a payment out of the Fund rests with the responsible Minister. The Board continues to monitor developments closely.

Second, the Government is currently reviewing the arrangements for compensation for loss in the financial services sector. Treasury has released an issues and options paper and invited public consultation on this matter. The issues raised for consideration include the justification and purpose of compensation arrangements, the conduct causing loss for which compensation should be payable, the persons on whom the obligation to make such arrangements should fall and the mechanisms available. As such, the outcome of the review may have a significant impact on the future operations of SEGC and the Fund. A number of interested parties, including SEGC, made submissions to Treasury in response to the issues and options paper.

SEGC's submission to Treasury included a submission that payments in relation to investor compensation should be capped. SEGC has made a number of submissions in relation to this issue over the years as it considers that capping payments would ensure the structural soundness of the Fund without any significant reduction in investor protection. Further, capping payments from the Fund is consistent with the practice of other domestic and international investor compensation schemes.

It is expected that Treasury will release a position paper in the near future setting out a detailed proposal concerning future compensation arrangements and inviting further public consultation. SEGC looks forward to continuing to play an active role in the Government's review of this matter.



Clive Batrouney

Chairman

OVERVIEW OF SEGC AND THE NATIONAL GUARANTEE FUND

SEGC is responsible for administering the National Guarantee Fund (NGF or the Fund) and operates in accordance with Part 7.5 of the Corporations Act 2001 and the Corporations Regulations 2001. The assets of the NGF are the property of SEGC but are held in trust for the purposes set out in the legislation.

The SEGC Board is made up of directors experienced in matters involving the securities industry. The sole member of SEGC is Australian Stock Exchange Ltd (ASX).

What is the NGF?

The NGF is a compensation fund available to meet certain types of claims arising from dealings with Participating Organisations of ASX and, in limited circumstances, Clearing Participants of Options Clearing House Pty Ltd (Dealers). It was established by the Australian Stock Exchange and National Guarantee Fund Act 1987, which also created ASX as a national stock exchange. When the six state stock exchanges were merged under that Act, the assets of the fidelity funds of those state exchanges were merged to form the NGF. At the time of its formation, the amount in the NGF was \$60.4 million.

The value of the NGF has more than doubled since it was formed. Investment earnings have been the major contributor to the increase. The earnings of the NGF are income tax exempt. In addition, the NGF has received interest earned from the investment by ASX of trust account deposits lodged by Participating Organisations with ASX under the former provisions of Part 7.8 of the Corporations Act. The Financial Services Reform Act 2001 repealed these provisions from 11 March 2002. Under transitional arrangements introduced on 14 June 2002, Participating Organisations of ASX were required to establish a special purpose interest bearing trust account into which they deposited a portion of their trust account balances. The interest earned on these accounts is paid to SEGC. These arrangements will continue until such time as Participating Organisations transition to the new FSR regime which should be, at the latest, March 2004.

In accordance with SEGC's investment strategy for the management and investment of the Fund's assets, the Fund has been segregated into two portions which have been invested with two professional portfolio managers. One, the 'reserve pool', is invested in cash or cash like products. The amount allocated to the reserve pool is no less than \$80 million, the minimum amount as determined under

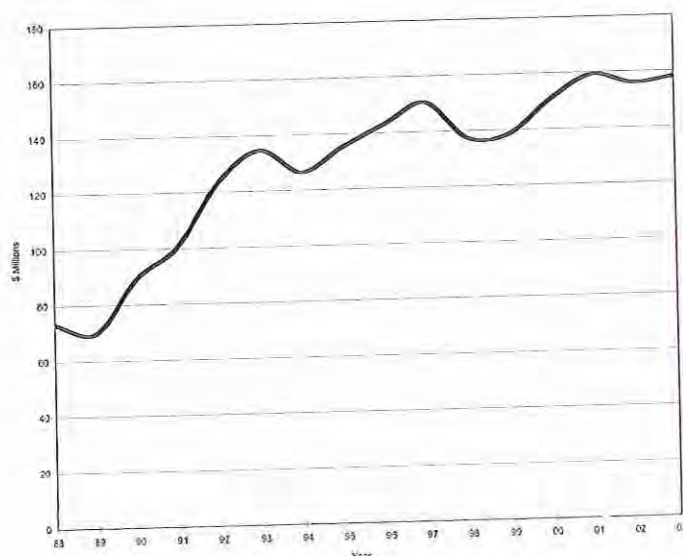


Figure 1: NGF net assets 1988 - 2003'

the Corporations Act. The remainder, the 'long-term pool', is invested in a variety of longer term asset classes in a diversified balanced fund. Note however that in anticipation of the proposed Fund split, SEGC began in 2003 to progressively transfer the long-term pool to a cash fund. Fluctuations in interest rates and price movements in markets have affected the NGF's earnings on investments.

At 30 June 2003, the net assets of the NGF were \$158.0 million.

The net assets of the NGF reflect variations in earnings (see Figure 2), the amount paid to ASX's Financial Industry Development Account (previously Securities Industry Development Account) (see Figure 3), the net amount paid in respect of claims (after recoveries) (see Figure 10) and changes in provisions for claims.

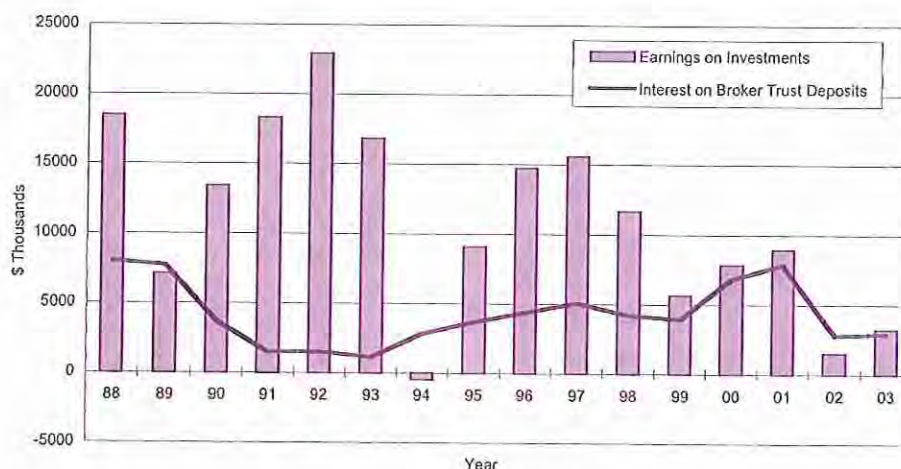


Figure 2: NGF earnings 1988 - 2003¹

Footnote 1:

Note that the net assets for 2002 in Figure 1 and the earnings on investments for 2002 and 2003 in Figure 2 take account of the correction of an error in the 2002 financial statements. See note 16 to the 2003 financial statements for further details.

What claims can be made on the NGF?

The claims provisions are set out in Division 4 of Part 7.5 of the Corporations Regulations. Prior to March 2002, when the Financial Services Reform Act and amendments to the Corporations Act came into effect, the claims provisions were set out in Part 7.10 of the old Corporations Act. For ease of reference this report refers to the current provisions. Note however that claims made prior to March 2002 were made under the equivalent former provisions.

The protection provided by the NGF is only available in relation to the activities of Dealers (as defined above).

There are four subdivisions of Division 4 of Part 7.5 of the Corporations Regulations which set out the types of claims that clients of Dealers may make on the NGF in certain circumstances. They are for:

- completion of sales and purchases of quoted securities entered into by a Dealer on ASX's equities and debt markets where the transaction is required to be reported to ASX (Subdivision 4.3). The Dealer may have failed to provide to the client, after settlement, the securities purchased or the proceeds of sale, or may have been suspended by ASX or by ASX Settlement and Transfer Corporation Pty Limited (ASTC);
- loss that results if a Dealer transfers marketable or certain other securities without authority (Subdivision 4.7);
- loss that results if a Dealer cancels or fails to cancel a certificate of title to quoted securities contrary to the provisions of the operating rules of ASTC (Subdivision 4.8);
- loss that results if a Dealer becomes insolvent and fails to meet its obligations in respect of

property (usually money or securities) that had been entrusted to it in the course of, or in connection with, its business of dealing in securities, up to a statutory maximum per Dealer of 14% of the 'minimum amount' of the NGF (Subdivision 4.9). Currently, the maximum is \$11.2 million (See below for an explanation of the 'minimum amount').

No claims have been made under Subdivision 4.8.

In addition to the above categories of claims, the following claims may be made on the NGF:

- a Dealer may make a claim for completion of certain sales and purchases of quoted securities entered into on ASX's equities and debt markets where the transaction is required to be reported to ASX and is not novated to an ASX-related clearing house (Subdivision 4.3);
- a Dealer or an ASX-related clearing house to which a net payment obligation or a net delivery obligation is owed by the other may make a claim if that obligation is not met (Subdivision 4.5); and
- ASX may make a claim if an obligation of a Dealer under a guaranteed securities loan is not met (Subdivision 4.4).

No claims have been made under Subdivisions 4.4 or 4.5.

Further information about claims made is provided in the Claims Report section.

Claims which cannot be made on the NGF

Claims cannot be made on the NGF unless they fall within one of the categories referred to earlier. Examples of claims which cannot be made are claims:

- for loss arising from investment decisions, or from relying on investment advice given by a Dealer;
- for loss if a Dealer fails to act on instructions to buy or to sell;
- for money lent to a Dealer which has not been repaid;
- in respect of conduct by an entity other than the

specific entity which is the Dealer; and

- in respect of alleged unauthorised withdrawal or misappropriation by the Dealer of money in a client's account or held on a client's behalf, unless the circumstances are such that the loss may be claimed under one of the specific categories in the legislation.

Some people are not entitled to make certain claims under Subdivision 4.7 or Subdivision 4.9. These include the Dealer concerned, its officers and their spouses and relatives.

Reduction of claims

SEGC may reduce the amount of compensation payable to a claimant:

- by reference to the extent to which the claimant was responsible for causing the loss; and
- if a claimant has, without the written consent of SEGC, adversely affected SEGC's right to be subrogated to any of the claimant's rights and remedies and the claimant received a benefit for assigning its rights or remedies.

The 'minimum amount' of the NGF

Under the Corporations Act, the SEGC Board may, with the approval of the Government Minister responsible for the Corporations Act, determine that a particular amount (referred to in the legislation as the 'minimum amount') is the amount needed to maintain the NGF at a viable level to meet claims and administration costs of SEGC and the NGF.

In 1987 when the NGF was formed, the initial 'minimum amount' under the legislation was \$15 million. Because changes occur in the securities industry and new products and services are developed, the SEGC Board has periodically reviewed the 'minimum amount' which has been increased over time. Currently the amount is set at \$80 million.

SEGC liaises with ASX on new products and monitors developments in the regulatory environment so that potential changes to the NGF's risk may be assessed.

If the amount in the NGF falls below the 'minimum amount', the Board has flexibility in managing the financial position of SEGC and the NGF as

appropriate in the circumstances. For example:

- it may determine (with the Minister's approval) to reduce the 'minimum amount' of the NGF;
- it may take out insurance against liability in respect of claims on the NGF;
- it may pay claims in instalments and in the priority set out in the legislation;
- it may borrow (including from ASX) for the purpose of meeting a payment due out of the NGF; or
- it may raise funds for the NGF by imposing a levy on ASX or on all or a class of Participating Organisations.

If SEGC imposes a levy on ASX, ASX may impose a levy on its Participating Organisations to go towards the levy payable to SEGC.

The amount in the NGF has not fallen below the applicable 'minimum amount' since the NGF was formed, and SEGC has not imposed any levies. SEGC has not needed to borrow to pay claims and has not taken out insurance against its liability to meet claims.

Financial Industry Development Account (FIDA)

The Corporations Act also provides the Board with flexibility if the amount in the NGF exceeds the 'minimum amount'. In that circumstance, SEGC may in its discretion pay all or part of the excess to ASX. Any money received by ASX out of NGF funds must be kept in a separate account designated as FIDA (previously these payments had to be kept in an account designated as the Securities Industry Development Account (SIDA)). A total of \$120.98 million has been distributed out of the NGF to the FIDA/SIDA account held by ASX since formation of the NGF.

During the financial year, \$3.53 million was distributed to ASX's FIDA account.

Money held in the FIDA account can only be used by ASX for approved purposes. These are purposes approved by the Minister and must relate to the creation of, or participation in, a program for the development of the financial industry that is conducted primarily for a public benefit and is not conducted primarily to promote the profitability of the commercial operations of ASX. Similar limitations applied previously in relation to SIDA funding. Figure 4 shows the projects for which FIDA/SIDA funds have been used over the last sixteen years.

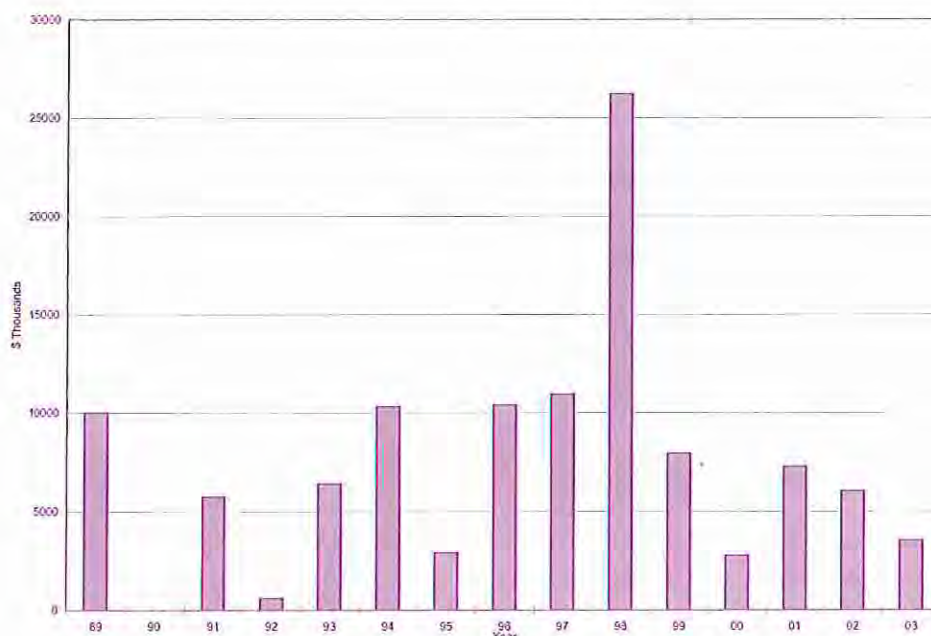


Figure 3: NGF payments to FIDA/SIDA 1988 - 2003

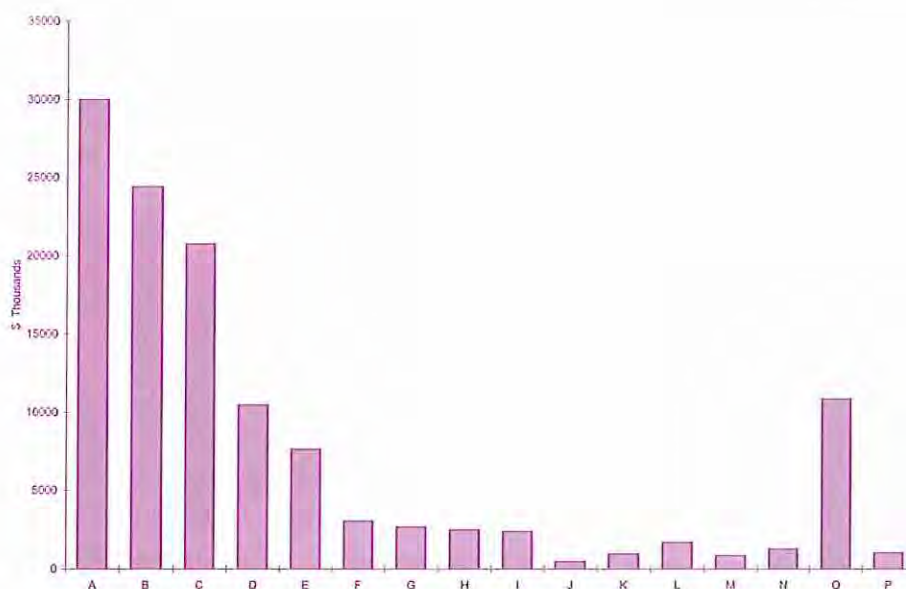


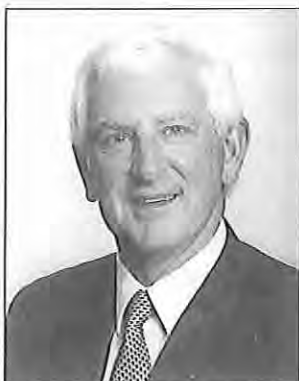
Figure 4: NGF payments to FIDA/SIDA by project 1988 - 2003

Key to projects

A	CHES	ASX's Clearing House Electronic Sub-register System for electronic shareholdings and automated electronic clearing and settlement of equities
B	SEATS 97	Upgrading of SEATS
C	DTF	ASX's automated Derivatives Trading Facility for screen-based options trading
D	SEATS	ASX's Stock Exchange Automated Trading System for screen-based trading of equities
E	CORE	ASX's central electronic repository for market and trading data
F	DATS	ASX's Derivatives Automated Trading System (forerunner to DTF)
G	National Data Centre	ASX's Data Centre at Bondi, NSW
H	CENSAS	ASX's Centralised Scrip & Accounting System (forerunner to CHES)
I	SIRCA	Infrastructure support for the Securities Industry Research Centre of Asia-Pacific
J	AGSM	Development of a securities markets teaching laboratory at the Australian Graduate School of Management
K	Internet	ASX's Interactive Internet Site
L	Others	ASX Share Ownership Study and ASX Market Multiples Research
M	Industry Research	Individual research projects commissioned or sponsored by ASX
N	SIA	Securities Institute of Australia
O	Education	ASX investor education projects
P	IAS	International Accounting Standards project

BOARD OF DIRECTORS

The SEGC Board is responsible for overseeing the general operation of SEGC including determining claims and deciding upon the investment strategy for the management and investment of the Fund's assets. The experience and qualifications of each director is set out below.



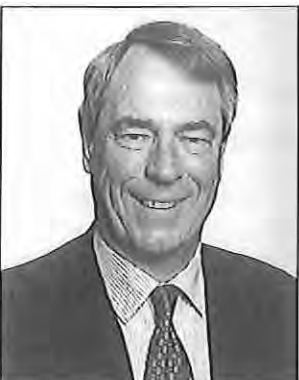
Clive M. Batrouney, ASIA, FAIM, age 62. Non Executive Director.
Chairman since July 1998. Director since October 1997.

Former Vice Chairman of Australian Stock Exchange Ltd (1994-2002). Former Chairman of ANZ McCaughan Securities Ltd, Australian Stock Exchange (Melbourne) Ltd (1989-1991) and Australian Stock Exchange Ltd Melbourne Advisory Board (1991-1994). Director of Hansen Yuncken Pty Ltd, Austymca Nominees Pty Ltd and Eflare Corporation Pty Ltd.



Hon. Keith De Lacy, BA, HonDLitt, DUniv, QDA, FAIM, FAICD, age 62.
Independent Non Executive Director. Director since December 1998.

Former Treasurer of Queensland (1989-1996). Chairman of Macarthur Coal Ltd, Trinity Funds Management and Advance Cairns Ltd. Director of Queensland Investment Corporation and Reef Casino Trust. Chairman of Salvation Army Red Shield Appeal, Cairns.



F. Allan McDonald, BEc, FCPA, FCIS, FAIM, age 63.
Independent Non Executive Director. Director since May 1993.

Director of GeneralCologne Life Re Australasia Ltd, GeneralCologne Re Australasia Ltd, Brambles Industries Ltd, Brambles Industries plc, DCA Group Ltd, Billabong International Ltd, Julia Ross Recruitment Ltd and TAB Ltd. Director of a number of private companies.



Maurice L. Newman, AC, FSIA, age 65. Non Executive Director.
Director since January 1995.

Chairman of Australian Stock Exchange Ltd. Former Executive Chairman of Deutsche Bank Group in Australia (1985-1999). Chancellor of Macquarie University. A Director of the Australian Broadcasting Corporation. Chairman of Tourism New South Wales, Sydney Convention & Visitors Bureau, the Australian Government's Financial Sector Advisory Council, Sydney Legacy Citizens' Committee, the Taronga Foundation and the Australian Fathers' Day Council. Advisor to the Marsh Group of Companies, a Member of the Advisory Council of the Asia Society AustralAsia Centre, the Business Council of Australia's Chairmen's Panel and the New South Wales Premier's Major Event's Board. A Patron of CEDA.



Michael J. Sharpe AO, BEc, Hon.DScEcon (Sydney), FCA, age 65.
Non Executive Director. Director since July 1998.

Director of Australian Stock Exchange Ltd. Former Partner of Coopers & Lybrand (1968-1998). Served as Chairman of Audit in Coopers & Lybrand International and was National Audit Partner and a member of the Executive Committee of the Australian Firm. Relevant experience was gained as Chairman of the International Accounting Standards Committee, President of the Institute of Chartered Accountants in Australia, Independent Auditor of the Australian National Audit Office and a member of the Takeover Panel. Served as a Director on many Boards in the last 12 years including having served as a trustee of State Super in NSW for many years.

Note that Mr Geoffrey Hone resigned as a Director, effective as of 1 December 2002.

DIRECTORS' ATTENDANCE AT MEETINGS

	Board Proceedings	
	Meetings A	Circulating Resolutions B
CM Batrouney	7(7)	2(2)
GW Hone	3(3)	0(0)
K De Lacy	6(7)	2(2)
FA McDonald	7(7)	1(2)
ML Newman	6(7)	2(2)
MJ Sharpe	7(7)	2(2)

A = Meetings attended (Meetings held)

B = Resolutions responded to (Resolutions circulated)

ADMINISTRATION OF SEGC

SEGC has a Manager, who is also company secretary and legal counsel to the Board and who is responsible for operational matters.



Sally Palmer BA (Hons), LLB (Hons), ASIA, Manager since July 2002.

Previously a solicitor in private practice with over 7 years experience in the areas of commercial litigation and dispute resolution, commercial law, insolvency and securities law.

The Manager is assisted by an administrative assistant and an accounts clerk. The organisational structure is shown below.



SEGC's staff, premises and equipment are provided by ASX Operations Pty Ltd, which also provides accounting and other administrative services to SEGC on a commercial basis.

CORPORATE GOVERNANCE

The Board of SEGC normally consists of six non-executive directors. ASX, as the sole member of SEGC, appoints three directors and those directors appoint three independent directors who:

- are not an affiliate of ASX or a professional adviser to ASX or a related body corporate;
- are not a partner, director, officer or employee of a Participating Organisation of ASX;
- are not a director, officer or employee of ASX or a related body corporate;
- are not a spouse, parent or child of a person in any of the previous categories; and
- otherwise have no interest in a Participating Organisation of ASX or a related body corporate which would enable the person to influence the management and policies of the Participating Organisation's stockbroking business.

One of the independent directors, Mr Geoffrey Hone, resigned as of 1 December 2002. The decision to appoint a new director has been temporarily deferred given that directors are appointed for a term of three years and given the uncertainty as to the future of SEGC in view of the proposed Fund split and the Government's compensation review (as discussed above).

SEGC's constitution provides that the term of office of each director expires three years after the date the director's appointment takes effect. A retiring director is eligible to be reappointed to the Board. Directors' remuneration is determined by ASX as the sole member of SEGC.

Note that the directors provide details of their current outside interests on appointment and advise of any change to those interests at each Board meeting. Where it is considered that a director has a material potential conflict it is noted and where appropriate the director absents himself for that item. That decision is minuted.

Staff of ASX are seconded to SEGC and are responsible to the Board of SEGC in the performance of their duties for SEGC. ASX staff on secondment acknowledge that it is their duty to act at all times in the best interests of SEGC even in the event of a conflict between the interests of ASX and SEGC. The appointment of the company secretary is approved by the Board.

Administration and accounting services are provided by ASX Operations Pty Limited. The performance of these duties is subject to the same internal and external audit reviews as are performed within ASX and the same risk management framework and policies. The audit and risk committee of ASX provides the results of its review of the financial report of SEGC to the directors of SEGC.

Note that as SEGC is not a listed entity the above statement is not intended to be a disclosure of corporate governance practices in accordance with the recommendations of the ASX Corporate Governance Council.

CLAIMS REPORT

Claims processing procedure

The types of claims which can be made on the NGF are set out in the Overview section.

In general, SEGC processes claims by clients of Dealers in the following way:

- **Notification:** The Dealer whose alleged conduct or default has prompted the claim is notified of the claim, so that it may consider action to settle the claim (either directly with the claimant or via SEGC) and where appropriate, notify its insurer. During the processing of the claim, SEGC attempts as far as possible to facilitate settlement between the claimant and the Dealer.
- **Investigation:** The facts surrounding the claim are ascertained or confirmed by SEGC from relevant sources. For example, SEGC may obtain information from Dealers, registries, liquidators, ASX, the Securities Clearing House and Options Clearing House Pty Ltd, as well as from the claimant. Under the Corporations Act, SEGC has power to require the production of documents and other information relevant to a claim.
- **Consideration of time limit:** If the claim has been made outside the time limit specified in the Corporations Regulations, the Board determines whether the circumstances are such that the time period for making the claim should be extended. If the Board does not extend the time for making the claim, the claim is barred. In general, the time limit for claims is six months commencing from the time of the relevant event or from the time the claimant became aware of the loss, depending on the category of claim. In some cases, SEGC may publish a notice specifying another time limit.
- **Determination:** The Board determines whether to allow or disallow claims made within the time limit and claims for which the Board has extended the time limit. If a claim is allowed, the claimant is provided with replacement securities and/or money.
- **Recovery:** The Corporations Act provides that if a claim is allowed, SEGC is subrogated to all the claimant's rights and remedies in relation to the conduct the subject of the claim. SEGC stands in the claimant's shoes and can seek recovery from the Dealer, and in appropriate cases other parties. Potential recoveries are pursued so that loss to the NGF is mitigated.

Current claims environment

Over recent years, there has been an increase in the level of share ownership in Australia, in trading activity on ASX's markets, and in new products. On-line trading and electronic communication generally have become prevalent.

Previous NGF claim trends suggest that dealers should focus on measures to reduce their exposure to fraudulent conduct which may result in an unauthorised transfer of securities. Such measures may relate to identification of the client, checking of holder details, and verification and recording of instructions, particularly where instructions are received from new clients or from referring intermediaries and other agents.

Claims processed in the current year

No new claims were received during the year.

The settlement of 129 claims lodged in a previous year was finalised. These claims were made under the equivalent provision to the present Subdivision 4.7 (unauthorised transfer of securities) and related to alleged losses suffered by certain clients of a large financial planning organisation in connection with dealings of a former Participating Organisation of ASX.

SEGC's claims processing activity in the period 1994-2003 is shown in Figure 5.

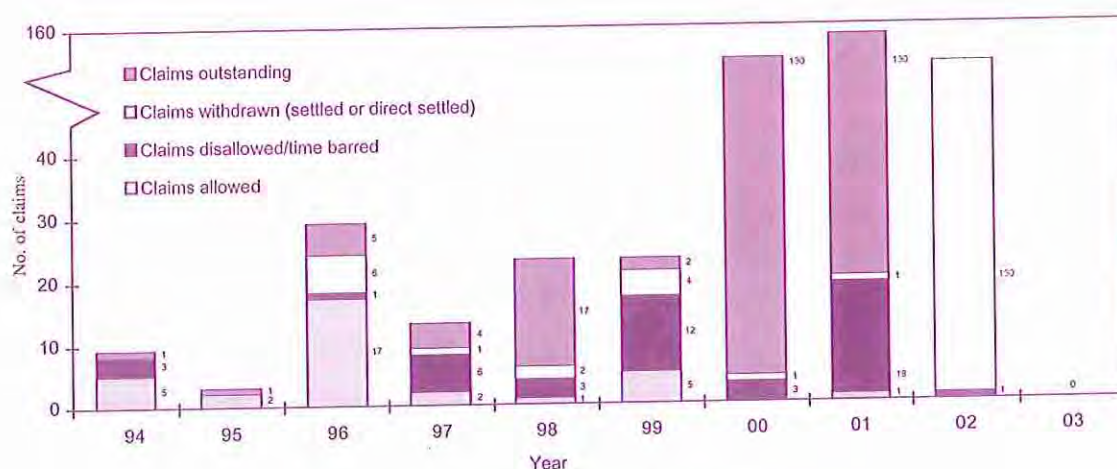


Figure 5: Claims processed 1994 - 2003

Appeals against disallowed claims

The Corporations Act provides that if the Board disallows a claim, the claimant may 'appeal' by bringing legal proceedings within 3 months seeking an order directing the Board to allow the claim.

No proceedings were commenced against SEGC during the financial year in respect of any disallowed claims. Figure 6 shows the number of appeals made and concluded since 1988. All appeals since 1997 have been in respect of disallowed claims in relation to unauthorised transfer of securities (present Subdivision 4.7).

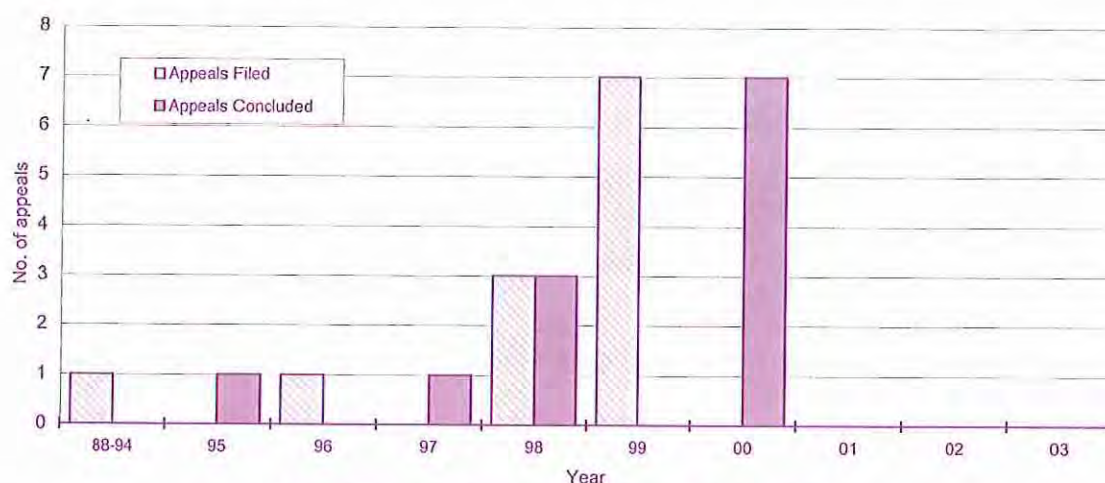


Figure 6: Appeals against disallowance 1988 - 2003

Claims history and trends

Since formation of the NGF, SEGC has received a total of 5,556 claims. As shown in Figure 7, most claims were received in the first four years. The high number of claims in those years resulted from seven Dealers becoming insolvent during the first three years of the NGF's operation.

Information in this annual report about claims received refers to formal claims. It does not include potential claims notified to SEGC which do not result in a formal claim. In relation to the Dealer insolvencies which have occurred, a large number of potential claims were notified to SEGC, some of which were later satisfied by the relevant liquidator without the need for a formal claim on the NGF.

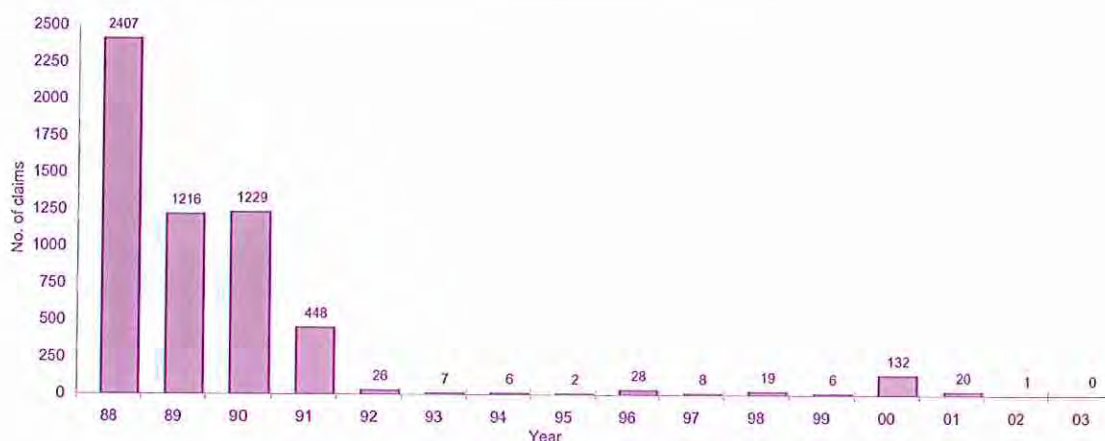


Figure 7: Number of claims received 1988 - 2003

Claims received since 1988 have been in respect of a total of 40 different Dealers. The number of different Dealers involved in claims received in any one year has ranged from one to nine. Some Dealers have been involved in claims received in more than one year. By way of comparison, as at 30 June 2003 there were 78 active Participating Organisations of ASX.

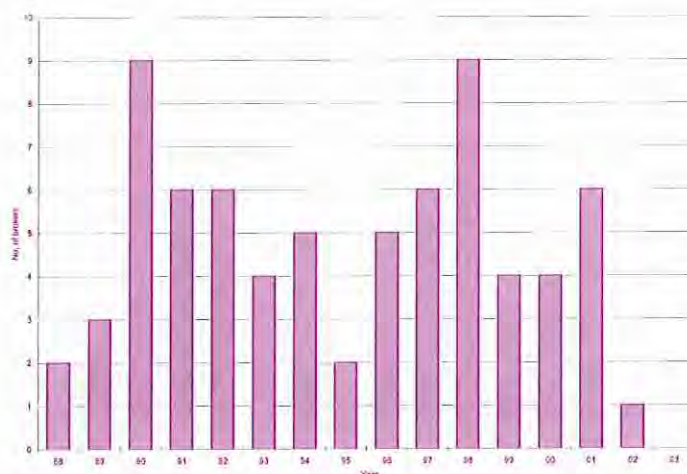


Figure 8: Number of Dealers involved in claims received 1988 - 2003

The NGF claims history may be conveniently divided into two periods.

1988-1993

During the first six years, eight Dealers became insolvent: two in the 1987-1988 financial year; three in 1988-1989; two in 1989-1990; and one in 1992-1993. A total of 5,333 claims were received. Almost all the claims in this period arose out of the insolvency of one of those Dealers, and were made under the equivalent provisions to the present Subdivisions 4.3 and 4.9. Those insolvencies were largely attributable to poor management practices, back office and other inefficiencies, and losses from principal trading. The failures occurred in the aftermath of the October 1987 stockmarket fall. Very few claims were made for unauthorised transfer of securities.

1994-2002

Since 1993, a number of significant improvements have occurred in ASX's settlement and transfer systems and in Dealers' practices. There has also been improved monitoring and reporting by Dealers of their capital adequacy, and more sophisticated risk management techniques have been adopted by Dealers and ASX clearing houses.

In this period, 223 claims have been received. There has been only one Dealer insolvency affecting the NGF, which occurred in May 1995 and was responsible for all but four of the claims received in 1996 and for several of the claims received in subsequent years. Whilst there have been fewer insolvencies, there has been a significant increase in claims for unauthorised transfer of securities. Although it is possible for an unauthorised transfer to occur without fraud, claims have typically involved allegations of fraudulent conduct, whether by a person internal or external to the Dealer which effected the transfer.

Figure 9 shows the categories of claims received in the 1994-2003 period. In the last five years, 95% of the claims received have related to the unauthorised transfer of securities (present Subdivision 4.7).

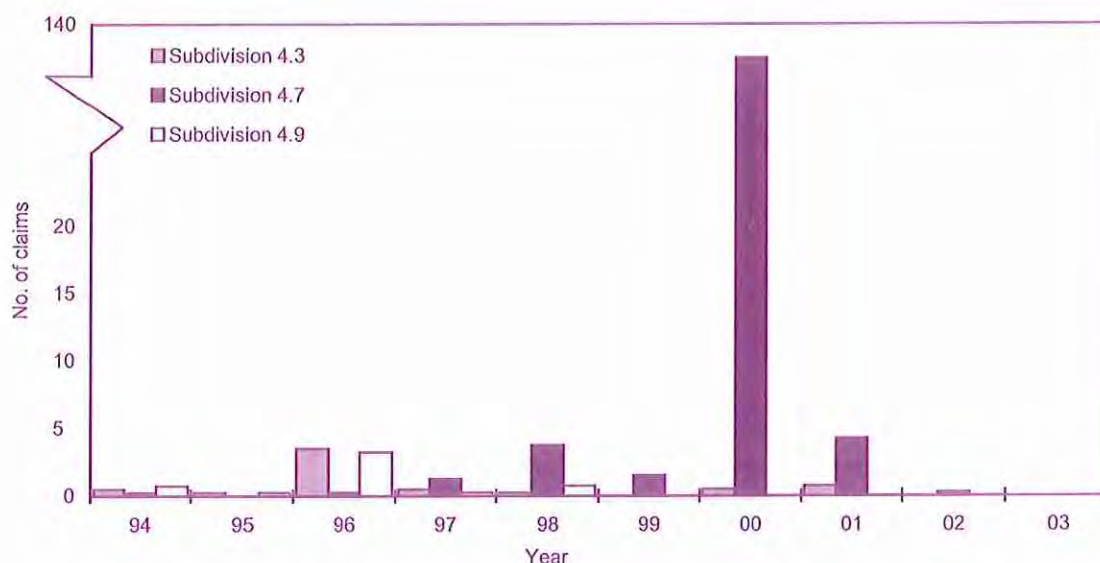


Figure 9: Category of claims received 1994 - 2003

Claim payments and recoveries

Since the NGF was formed, \$21.68 million has been paid from the NGF in respect of claims, and \$13.43 million of that amount has been recovered. As may be expected, there is a variable lag between payment and recovery (see Figure 10).

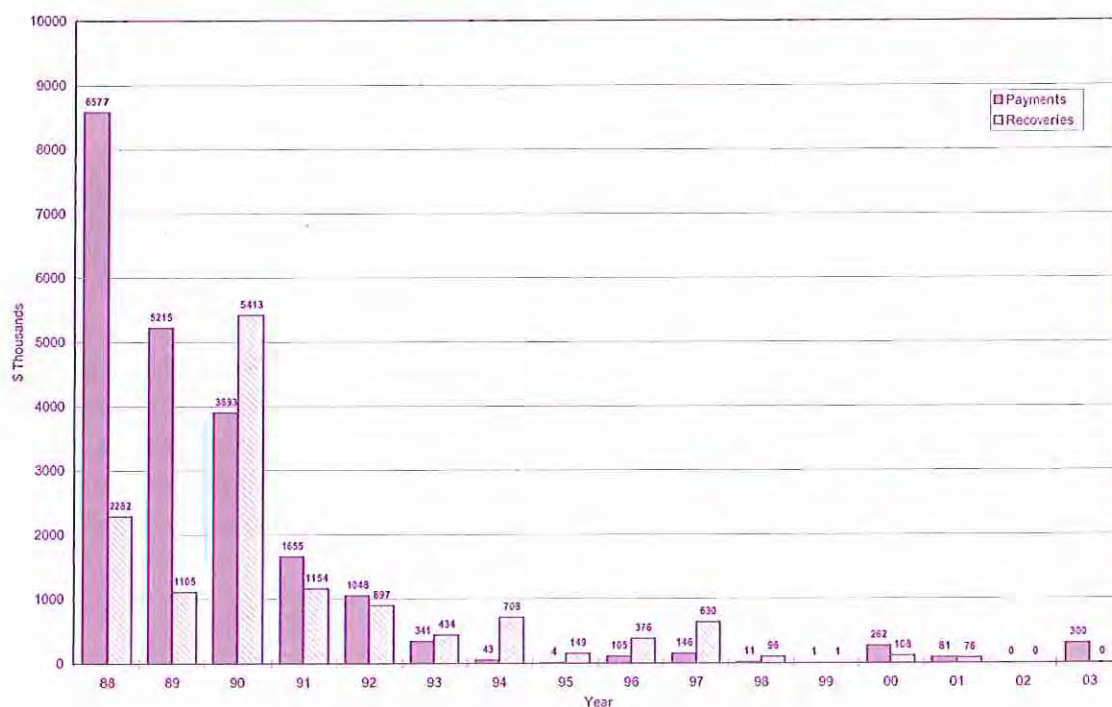


Figure 10: Claim payments and recoveries 1988 - 2003

In the 1994-2003 period, \$948,267 has been paid in respect of 170 claims. As Figures 11 and 12 show, although more than three quarters of the total number of claims paid involved amounts of less than \$20,000, payments of greater than \$20,000 per claim accounted for almost three quarters of the total amount paid in this period. Four claims, all relating to unauthorised transfer of securities (present Subdivision 4.7), involved payments of \$50,000 or more.

Note that during the financial year a payment of \$300,000 was made as a global settlement of 129 individual claims. As this payment was not apportioned to the individual claims it has not been included in Figures 11 and 12.

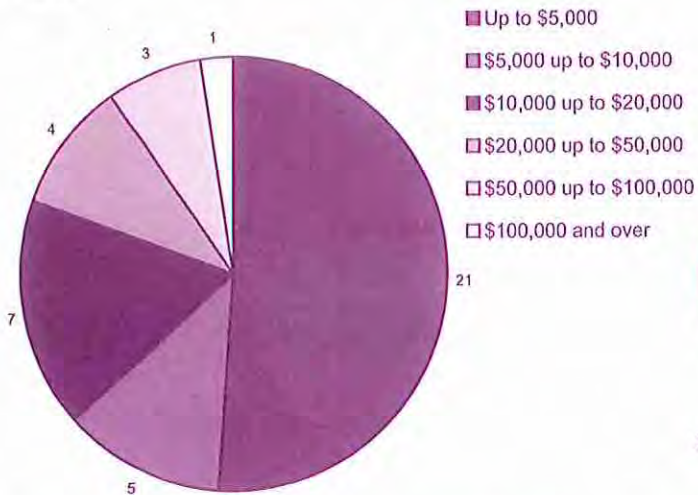


Figure 11: Claim payments 1994 - 2003 by number

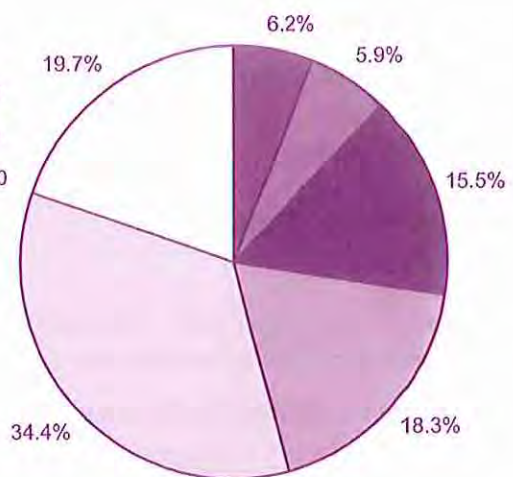


Figure 12: Claim payments 1994 - 2003 by size

Figure 13 shows claim payments in the 1994-2003 period by category of claim. Over three quarters of the total amount paid has been in respect of claims in relation to unauthorised transfer of securities (present Subdivision 4.7)

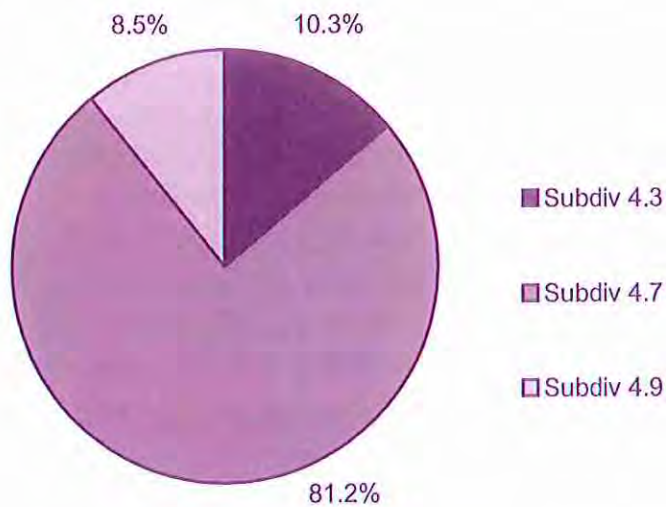


Figure 13: Claim payments 1994 - 2003 by category

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The directors present their report together with the financial report of Securities Exchanges Guarantee Corporation Limited ("SEGC") for the year ended 30 June 2003, including the financial report of the National Guarantee Fund ("the Fund") and the auditor's report thereon.

DIRECTORS

The directors of SEGC in office during the financial year and until the date of this report are as follows:

Clive Michael Batrouney (Chairman);
Geoffrey William Hone, resigned 1 December 2002;
Fergus Allan McDonald;
Maurice Lionel Newman AC;
Michael John Sharpe AO; and
Hon Keith De Lacy

Mr Hone and Mr McDonald were reappointed directors as from 20 October 2002. The directors were in office for the entire period unless otherwise stated.

For details of the directors' qualifications, experience and special responsibilities, refer to pages 7 to 8, which are to be read as part of this report. Directors' meetings and their attendance at those meetings are detailed on page 8. Those details are to be read as part of this report.

PRINCIPAL ACTIVITY

SEGC is a statutory trustee and holds the assets of the Fund in trust for the purposes set out in the provisions of Part 7.5 of the Corporations Act 2001 and the Corporations Regulations 2001. It administers the Fund in accordance with those provisions. There were no significant changes in the nature of the company's activities during the year.

REVIEW AND RESULTS OF OPERATIONS

SEGC did not trade in its own right during the financial year. The net income from ordinary activities of the Fund for the year was \$3,033,890 (2002: \$5,342,263) before distributions of \$3,528,353 (2002: \$6,031,211) to the financial industry development account held by Australian Stock Exchange Limited ("ASX") under Corporations Regulation 7.5.89. An error was made in the financial statements in the prior year which has been corrected in the current year. Refer to note 16 for further details.

During the financial year, the settlement of 129 claims lodged on SEGC in a previous year was finalised. These claims related to alleged losses suffered by certain clients of a large financial planning organisation in connection with dealings of a former Participating Organisation of ASX. No further claims were made on SEGC during the financial year.

Payments in respect of claims totalled \$300,000 (2002: \$Nil). Total recoveries were \$Nil (2002: \$Nil). For further details about claims, refer to pages 11 to 16.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the directors, there were no significant changes in the state of affairs of SEGC or the Fund during the financial year under review.

EVENTS SUBSEQUENT TO BALANCE DATE

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of SEGC, to affect significantly the operations of SEGC or the Fund, the results of those operations, or the state of affairs of SEGC or the Fund, in subsequent financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Two significant developments occurred during the year which may have a significant impact on the future operations of SEGC and the Fund.

Firstly, ASX announced that it intends to make an application under section 891A of the Corporations Act 2001 that the Fund be "split". The application was lodged on 31 July 2003. The Fund presently fulfils two important functions under the Corporations Act:

- It provides investor protection by compensating investors in the circumstances set out in Division 4 of Part 7.5 of the Corporations Act and Regulations 2001; and
- It provides clearing and settlement support by supporting the integrity of ASX's clearing and settlement facilities and providing the financial backing for ASX related clearing houses.

The proposal to split the Fund involves the payment of monies out of the Fund to a new body, to be called Australian Clearing House (ACH), which will provide clearing and settlement support currently provided by the Fund. In the event that the Fund is split, the Fund's sole function would be to provide investor compensation.

Section 891A provides that if the Minister is satisfied that a body corporate specified in the regulations has made adequate arrangements covering all or part of the clearing and settlement system support that Division 4 of Part 7.5 of the Act provides for, the Minister may, in writing, direct SEGC to pay a specified amount to that body corporate out of the Fund. SEGC and the body corporate must comply with the direction and with any applicable conditions to which the direction is subject.

If the proposal to split the Fund is implemented it will remove the Fund's exposure to claims relating to clearing and settlement system support. Those claims, to the extent that they are covered by the specified body corporate (ACH) will not be covered by the Fund. The proposal will also result in a reduction in the assets of the Fund. However, before the Minister can direct SEGC to make a payment out of the Fund, the Minister must be satisfied that, after the payment is made, the Fund will still have an adequate amount of assets to meet claims.

The Board contracted PricewaterhouseCoopers to provide assistance in considering the proposal to split the Fund. Ultimately, any decision to make a payment out of the Fund rests with the responsible Minister. The Board continues to monitor developments closely.

Secondly, the Government is currently reviewing the arrangements for compensation for loss in the financial services sector. Treasury has released an issues and options paper and invited public consultation on this matter. The issues raised for consideration include the justification and purpose of compensation arrangements, the conduct causing loss for which compensation should be payable, the persons on whom the obligation to make such arrangements should fall and the mechanisms available. As such, the outcome of the review may have a significant impact on the future operations of SEGC and the Fund. A number of interested parties, including SEGC, made submissions to Treasury in response to the issues and options paper.

SEGC's submission to Treasury included a submission that payments in relation to investor compensation should be capped. SEGC has made a number of submissions in relation to this issue over the years as it considers that capping payments would ensure the structural soundness of the Fund without any significant reduction in investor protection. Further, capping payments from the Fund is consistent with the practice of other domestic and international investor compensation schemes.

It is expected that Treasury will release a position paper in the near future setting out a detailed proposal concerning future compensation arrangements and inviting further public consultation. SEGC looks forward to continuing to play an active role in the Government's review of this matter.

Further, in accordance with a Regulation which came into effect on 14 June 2002, Participating Organisations are required to deposit two-thirds of their trust account balances into a special purpose trust account and pay interest on this account to SEGC. However, these arrangements only continue until such time as Participating Organisations transition to the new Financial Services Reform regime, which should be, at the latest, March 2004. Hence, by March 2004 SEGC will no longer receive interest on special purpose trust accounts.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The directors of SEGC are not aware of any significant material environmental incidents arising from the operations of SEGC or the Fund during the financial year.

DIRECTORS' INTERESTS AND BENEFITS

Since the end of the previous financial year, no director of SEGC has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the financial statements) by reason of a contract made by SEGC with the director or with a firm of which the director is a member, or with an entity in which the director has a substantial interest. Directors' benefits are set out in note 7.

INDEMNIFICATION AND INSURANCE OF OFFICERS

Since the end of the previous financial year, the entity has paid an insurance premium in respect of directors' and officers' liability insurance for current and former officers of SEGC.

The officers of SEGC covered by the insurance include the directors referred to earlier in this report and the company secretary, S Palmer.

In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

The constitution of SEGC provides that, to the extent permitted by law, the officers of SEGC are indemnified against any liability incurred in that capacity being a liability:

- to a person other than SEGC or a related body corporate, unless the liability involves a lack of good faith or is contrary to SEGC's express instructions; or
- for costs or expenses incurred in defending any proceedings, whether civil or criminal, in which judgment is given in favour of the person or the person is acquitted, or in connection with an application in relation to such proceedings in which the court grants relief to the person under the Corporations Act 2001.

CORPORATE GOVERNANCE

The Board of SEGC normally consists of six non-executive directors. ASX, as the sole member of SEGC, appoints three directors and those directors appoint three independent directors who:

- are not an affiliate of ASX or a professional adviser to ASX or a related body corporate;
- are not a partner, director, officer or employee of a participating organisation of ASX;
- are not a director, officer or employee of ASX or a related body corporate;
- are not a spouse, parent or child of a person in any of the previous categories; and
- otherwise have no interest in a participating organisation of ASX or a related body corporate which would enable the person to influence the management and policies of the participating organisation's stockbroking business.

One of the independent directors, Mr Geoffrey Hone, resigned as of 1 December 2002. The decision to appoint a new Director has been temporarily deferred given that directors are appointed for a term of three years and given the uncertainty as to the future of SEGC in view of the proposed Fund split and the Government's compensation review.

SEGC's constitution provides that the term of office of each director expires three years after the date the director's appointment takes effect. A retiring director is eligible to be reappointed to the board. Directors' remuneration is determined by ASX as the sole member of SEGC.

Staff of ASX are seconded to SEGC and are responsible to the Board of SEGC in the performance of their duties for SEGC. ASX staff on secondment acknowledge that it is their duty to act at all times in the best interests of SEGC even in the event of a conflict between the interests of ASX and SEGC.

Administration and accounting services are provided by ASX Operations Pty Limited. The performance of these duties is subject to the same internal and external audit reviews as are performed within ASX. The audit and risk committee of ASX provides the results of its review of the financial report of SEGC to the directors of SEGC.

Dated at Melbourne this 29th day of August 2003.

Signed in accordance with a resolution of the directors:



CLIVE M BATROUNEY

Chairman

SECURITIES EXCHANGE GUARANTEE CORPORATION LIMITED

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2003

	2003	2002
	\$	\$
Profit from ordinary activities	-	-

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2003

	Note	2003	2002
		\$	\$
Total Equity	2	-	-

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2003

	2003	2002
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES	-	-
CASH FLOWS FROM INVESTING ACTIVITIES	-	-
CASH FLOWS FROM FINANCING ACTIVITIES	-	-
NET INCREASE/(DECREASE) IN CASH HELD	-	-
CASH AT THE BEGINNING OF THE FINANCIAL YEAR	-	-
CASH AT THE END OF THE FINANCIAL YEAR	-	-

NATIONAL GUARANTEE FUND

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2003

	Note	2003 \$	2002 \$
Revenues from ordinary activities			
Interest income – broker trust accounts		2,870,772	2,762,291
Interest income – other		2,041	300
Distributions – Schroder balanced fund		2,776,876	3,202,002
Correction of fundamental error	16	(2,398,280)	-
Distributions – UBS cash plus fund		3,559,342	3,220,018
Realised gains on sale of investment units – UBS cash plus fund		46,404	25,640
Unrealised gains on valuation of investment units – UBS cash plus fund		570,509	647,467
Unrealised gains on valuation of investment units – Schroder enhanced cash management fund		6,738	-
Refund of imputation credits	3(c)	241,038	278,104
Total revenues from ordinary activities		7,675,440	10,135,822
Expenses from ordinary activities			
Realised losses on sale of investments – Schroders balanced fund		1,685,942	-
Unrealised losses on valuation of investment units - Schroder balanced fund		2,320,075	3,488,976
Audit fees		20,000	21,900
Claims provided		-	300,000
Support staff and administration		615,533	982,683
Total expenses from ordinary activities		4,641,550	4,793,559
Net profit from ordinary activities		3,033,890	5,342,263
Distributions to Financial Industry Development Account held by Australian Stock Exchange Limited	8	3,528,353	6,031,211
Net loss from ordinary activities after distributions		(494,463)	(688,948)

The statement of financial performance is to be read in conjunction with the notes to the financial statements.

NATIONAL GUARANTEE FUND

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2003

	Note	2003	2002
		\$	\$
CURRENT ASSETS			
Cash assets		75,097	24,772
Receivables	4	244,157	286,386
Other financial assets - investments	5	157,782,493	161,078,305
Total current assets		158,101,747	161,389,463
TOTAL ASSETS		158,101,747	161,389,463
CURRENT LIABILITIES			
Payables		10,000	62,396
Provision for claims		-	300,000
Provision for legal and professional fees		-	100,000
Amounts owing to ASX (FIDA)		-	2,039,029
Amounts owing to ASX Operations Pty Limited	11	105,584	407,412
Total current liabilities		115,584	2,908,837
Total liabilities		115,584	2,908,837
Net assets		157,986,163	158,480,626
Funds			
Retained funds	6	157,986,163	158,480,626
Total funds		157,986,163	158,480,626

The statement of financial position is to be read in conjunction with the notes to the financial statements.

NATIONAL GUARANTEE FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2003

		2003	2002
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net payments for the purchase of other investments		(2,484,834)	(5,130,739)
Interest received – broker trust accounts		2,870,772	3,178,436
Interest received – other		2,041	300
Distributions received from investments		6,336,218	6,439,421
Refund of imputation credits		278,105	271,736
Payments to suppliers		(1,084,595)	(747,817)
Claims paid		(300,000)	-
Payments to FIDA		(5,567,382)	(3,992,182)
NET CASH PROVIDED BY OPERATING ACTIVITIES	12	50,325	19,155
CASH FLOWS FROM INVESTING ACTIVITIES			
		-	-
CASH FLOWS FROM FINANCING ACTIVITIES			
		-	-
NET INCREASE IN CASH HELD		50,325	19,155
CASH AT THE BEGINNING OF THE FINANCIAL YEAR		24,772	5,617
CASH AT THE END OF THE FINANCIAL YEAR		75,097	24,772
RECONCILIATION OF CASH			
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:			
Cash assets		75,097	24,772
CLOSING CASH BALANCE		75,097	24,772

DEFINITION OF CASH

For the purposes of the statement of cash flows, cash includes cash at bank and investments in securities with a term to maturity of less than three months. The UBS cash plus fund is partially used to fund ongoing working capital requirements but mainly for investment purposes. Accordingly, the balance in this fund has been treated as an investment for cash flow purposes. The balance held in this fund at 30 June 2003 was \$83,323,976 (2002: \$82,999,105). As a result the cash balance at year end only reflects the balance in the day to day bank account. The balance held in the UBS cash plus fund is highly liquid, and can be called upon in the event of any major claims on the Fund.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED

Securities Exchanges Guarantee Corporation Limited ("SEGC") is incorporated in the Australian Capital Territory as a company limited by guarantee with the sole purpose of administering the National Guarantee Fund ("the Fund"). SEGC does not trade in its own right.

Australian Stock Exchange Limited ("ASX"), as the only member of SEGC, undertakes to contribute an amount not exceeding \$1,000 to the assets of SEGC in the event of SEGC being wound up while ASX is a member or within one year after it ceases to be a member, for payment of the debts and liabilities of SEGC contracted before it ceases to be a member for payment of the costs, charges and expenses of winding up and for the adjustment of the rights of contributories among themselves.

2. LIABILITIES OF SEGC AND RIGHT OF INDEMNITY

The liabilities of the Fund of \$115,584 at 30 June 2003 are liabilities of SEGC (2002: \$2,908,837). As set out in section 889C(2) of the Corporations Act 2001, the assets of the Fund are the property of SEGC but are held in trust for the purposes set out in Part 7.5 of the Corporations Act 2001 and the Corporations Regulations 2001. SEGC has a right of indemnity from the assets of the Fund in respect of liabilities properly incurred by SEGC on behalf of the Fund.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies that have been adopted by SEGC and the Fund in the preparation of this financial report are:

(a) Basis of preparation

The financial report has been drawn up in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other mandatory pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report has been prepared on the basis of historical costs and except for investments, which have been recorded at their current market values as advised by the investment managers, does not take into account changing money values. The accounting policies have been consistently applied and are consistent with those of the previous year.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

(b) Interest revenue

Interest revenue is recognised as it is received.

(c) Imputation credits

Imputation credits attaching to distributions from investments are refundable. As a result, imputation credits arising from distributions received during the year have been recognised as revenue.

(d) Claims

Claims are recorded on an accruals basis.

If SEGC allows a claim, SEGC is subrogated to the claimant's rights and remedies (section 892F of the Corporations Act 2001). No allowance has been made for potential recoveries by SEGC upon the exercise of its rights of subrogation.

(e) Income tax

No provision is made for income tax as SEGC/the Fund have received notification from the Australian Taxation Office of endorsement as an income tax exempt charitable entity.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(f) Trading securities

SEGC's investments are divided into two pools which have been invested with two professional portfolio managers. One, the 'reserve pool', is invested with UBS Asset Management (Australia) Ltd in cash or cash like products (UBS cash plus fund). The amount allocated to the reserve pool is no less than \$80 million, the minimum amount as determined under the Corporations Act 2001. The remainder, the long-term pool, is invested with Schroder Investment Management Australia Limited in a variety of longer term asset classes in a diversified balanced fund (Schroder balanced fund). Note however that in anticipation of the proposed Fund split, SEGC began in June 2003 to progressively transfer the long-term pool to a cash fund (Schroders enhanced cash management fund).

Trading securities at balance date are stated at market value. Increases or decreases in the market value are recognised in the statement of financial performance.

(g) Derivatives and other financial instruments

Derivative financial instruments are used by the fund managers to hedge cash flows subject to interest rate risk. Such instruments are not used to gear or leverage the Fund's investments.

(h) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the ATO. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Payments to FIDA are not subject to GST.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

4. RECEIVABLES

	2003	2002
	\$	\$
Refund of imputation credits	241,038	278,105
Other receivables	3,119	8,281
	<u>244,157</u>	<u>286,386</u>

5. OTHER FINANCIAL ASSETS - INVESTMENTS

Units in managed funds

Schroder balanced fund	64,451,779	78,079,200
Schroder enhanced cash management fund	10,006,738	-
UBS cash plus fund	83,323,976	82,999,105
	<u>157,782,493</u>	<u>161,078,305</u>

6. RETAINED FUNDS

Movements in retained funds during the financial year were as follows:

Retained funds at the beginning of the financial year	158,480,626	159,169,574
Net (loss) after distributions to ASX (FIDA)	(494,463)	(688,948)
	<u>157,986,163</u>	<u>158,480,626</u>

7. REMUNERATION OF DIRECTORS

The number of directors of SEGC whose income (including superannuation contributions) falls within the following bands is:

	2003 No.	2002 No.
\$20,000 - \$29,999	5	5
\$30,000 - \$39,999	1	1

Directors' fees paid or payable, in respect of the financial year, to the directors of SEGC are as follows :

	2003 \$	2002 \$
Mr M L Newman	22,537	20,617
Mr M J Sharpe	23,783	21,545
Mr F A McDonald	23,817	21,481
Mr K De Lacy	23,817	21,481
Mr C M Batrouney	35,970	32,086
Mr G W Hone	9,923	21,482

Total income paid or payable, or otherwise made available, in respect of the financial year, to all directors of SEGC, directly or indirectly, from the entity or any related party:

139,847	138,692
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No amount has been paid by any related party of SEGC to directors in respect of their duties as directors of SEGC.

8. SECURITIES INDUSTRY DEVELOPMENT ACCOUNT and FINANCIAL INDUSTRY DEVELOPMENT ACCOUNT

Subregulation 7.5.89(1) of the Corporations Regulations 2001 confers on the Board of SEGC a discretion to pay amounts in excess of the minimum amount to ASX to be held in a Financial Industry Development Account under sub regulation 7.5.89(3) ("FIDA"). Money in FIDA may only be used for purposes approved by the Minister under regulation 7.5.88 of the Corporations Regulations. The amounts paid to FIDA during the financial year and the purposes with which those payments were connected are:

	2003 \$	2002 \$
Securities Industry Research Centre - Infrastructure	625,000	250,000
International accounting standards (Financial Reporting Council)	1,000,000	-
Global accreditation project (Financial Associations Service Centre)	404,923	-
ASX investor education activities (1 Jul 2002 - 30 Jun 2005)	1,000,000	-
ASX investor education projects	192,755	2,844,235
Face to face education (1 Jul 1999 - 30 Jun 2002)	1,378,000	-
Industry research (2000 - 2002)	234,090	82,312
Education campaign	53,499	-
ASX market multiples research project	82,523	266,443
Interest rate securities education project	25,900	-
Securities Institute of Australia (development of content management system)	5,518	379,192
Public investor education (leverage equities, warrants, education initiatives)	90,174	-
Investor education initiatives (1 Jul 2002 - 30 Jun 2005)	325,000	-
Share ownership research (1 Jul 2002 - 30 Jun 2005)	150,000	-
Conversion of ASX collection to electronic version	-	170,000
Total amounts paid	5,567,382	3,992,182
Reversal of amounts accrued at 30 June 2002	(2,039,029)	2,039,029
Total Distributions to ASX (FIDA)	3,528,353	6,031,211

8. SECURITIES INDUSTRY DEVELOPMENT ACCOUNT and FINANCIAL INDUSTRY DEVELOPMENT ACCOUNT (CONTINUED)

Previously, section 944(1) of the old Corporations Act conferred on the Board of SEGC a discretion to pay amounts in excess of the minimum amount to ASX to be held in a Securities Industry Development Account under section 945(1) ("SIDA"). Money in SIDA could only be used for purposes approved by the Minister under section 945 of the old Corporations Act.

9. CONTINGENT LIABILITIES OF THE FUND

As at 30 June 2003, contingent liabilities exist in respect of potential claims relating to two participating organisations of ASX. These claims have been notified but not formally lodged. At present it is not possible to ascertain whether there is any basis for the claims or the total value of the claims.

10. SEGMENT REPORTING

SEGC operates wholly in the Australian securities industry.

11. RELATED PARTY DISCLOSURES

Directors

The names of each person who has been a director of SEGC during the financial year are Clive Michael Batrouney, Geoffrey William Hone (resigned 1 December 2002), Fergus Allan McDonald, Maurice Lionel Newman, Michael John Sharpe and Keith De Lacy. Mr Batrouney, Mr Newman and Mr Sharpe were each appointed by ASX. Mr Newman and Mr Sharpe are also directors of ASX and Mr Batrouney is a former director of ASX (retired 31 July 2002).

Mr Sharpe was, from 1968 to 1998, a partner in Coopers & Lybrand. He receives retirement benefits including an office and secretarial services, negotiated at the time of his retirement, from PricewaterhouseCoopers, who render consulting services in the ordinary course of business.

Inter-entity transactions

During the year, SEGC incurred management fees of \$425,367 inclusive of GST (2002: \$528,442) in respect of staff, administration and accounting services provided by ASX Operations Pty Limited.

The balance owing to ASX Operations Pty Limited by SEGC at 30 June 2003 was \$105,584 (2002: \$407,412). No interest is charged by ASX Operations Pty Limited on the outstanding balance.

12. STATEMENT OF CASH FLOWS

	2003	2002
	\$	\$
Reconciliation of the net loss from operating activities to the net cash flows from operating activities:		
Net loss after distributions	(494,463)	(688,948)
Decrease/(increase) in investments	3,295,812	(2,297,468)
Decrease in receivables	42,229	405,815
(Decrease)/increase in payables	(52,396)	46,211
(Decrease)/increase in provisions	(400,000)	220,000
(Decrease)/increase in amounts owing to ASX (FIDA)	(2,039,029)	2,039,029
(Decrease)/increase in other liabilities	(301,828)	294,516
Net cash provided by operating activities	50,325	19,155

13. FINANCIAL INSTRUMENTS

(a) Credit risk

The credit risk on financial assets of the Fund, which has been recognised on the Statement of financial position, is generally the carrying amount.

Credit risk relating to units in managed funds is managed by segregating the Fund into two portions in accordance with an investment strategy approved by the Board. One portion, the "reserve pool", is invested in the UBS cash plus fund in cash or cash-like products. The amount allocated to the reserve pool is the "minimum amount", as described under the Corporations Act 2001 (currently \$80 million). The remainder, the "long term pool", is invested in the Schroder balanced fund in a variety of longer term asset classes. Refer note 3(f) for further details.

(b) Interest rate risk

The Fund has minimal exposure to interest rate risk. Interest rate risk arises in relation to trading securities comprising short-term deposits, bank bills and fixed interest securities. The Fund's exposure to interest rate risk and the effective weighted average interest rate for each class of financial asset and financial liability is set out below.

	Interest bearing		Non-interest bearing		Total	
	2003	2002	2003	2002	2003	2002
	\$	\$	\$	\$	\$	\$
Financial assets						
Cash assets	75,097	24,772	-	-	75,097	24,772
Receivables	-	-	244,157	286,386	244,157	286,386
Other financial assets	-	-	157,782,493	161,078,305	157,782,493	161,078,305
- investments	-	-	-	-	-	-
	75,097	24,772	158,026,650	161,364,691	158,101,747	161,389,463
Financial liabilities						
Payables	-	-	10,000	62,396	10,000	62,396
Accrued distributions	-	-	-	2,039,029	-	2,039,029
Other	-	-	105,584	407,412	105,584	407,412
	-	-	115,584	2,508,837	115,584	2,508,837
Net financial assets	75,097	24,772	157,911,066	158,855,854	157,986,163	158,880,626

The weighted average interest rate for cash assets during the year was 4.1% (2002: 2%).

(c) Market risk

The Fund is exposed particularly through its managed fund portfolio, to market risks influencing investment valuations. In general, market risks are minimised through segregating the Fund into two portions in accordance with an investment strategy approved by the Board. Each portion is managed by a professional portfolio manager. One portion, the "reserve pool", is invested in the UBS cash plus fund in cash or cash-like products. The amount allocated to the reserve pool is the "minimum amount", as described under the Corporations Act 2001 (currently \$80 million). The remainder, the "long term pool", is invested in the Schroder balanced fund in a variety of longer term asset classes. Refer note 3(f) for further details.

(d) Liquidity risk

The liquidity risks associated with the need to pay any claims, as determined by SEGC, are mitigated by investing in funds which can be redeemed within 24 hours notice.

13. FINANCIAL INSTRUMENTS (CONTINUED)

(e) Financial derivatives contracts

The Fund's fund managers have entered into financial futures to hedge cash flows subject to interest rate risk.

(f) Net fair values of financial assets and liabilities

The entity's financial assets and liabilities carried in the statement of financial position are carried at amounts that approximate net fair value. Trading securities are valued at market value.

14. COMMITMENTS

The following table outlines all projects approved for FIDA funding by the Minister. Subregulation 7.5.89(1) of the Corporations Regulations 2001 confers on the Board of SEGC a discretion to pay amounts in excess of the minimum amount to ASX's FIDA account to be used for purposes approved by the Minister.

	2003	2002
	\$	\$
International accounting standards (Financial Reporting Council)	1,000,000	2,000,000
Share ownership research (1 Jul 2002 – 30 Jun 2005)	750,000	900,000
Global accreditation project (Financial Associations Service Centre)	90,078	495,000
Securities Institute of Australia (development of content management system)	1,144,482	1,150,000
ASX investor education activities (1 Jul 2002 – 30 Jun 2005)	5,000,000	6,000,000
ASX education project – fixed interest securities	5,782	5,782
ASX investor education projects	-	192,755
ASX market multiples research project	24,081	106,603
Industry research (1 Jan 2003 – 31 Dec 2005)	450,000	450,000
Industry research (1 Jan 2000 – 31 Dec 2002)	-	237,182
Education campaign	-	53,498
Interest rate securities education project	39,940	65,840
Public investor education (leverage equities, warrants, education initiatives)	347,826	438,000
Investor education initiatives (1 Jul 2002 – 30 Jun 2005)	1,625,000	1,950,000
Securities Industry Research Centre – Infrastructure (1 Jan 2003 – 31 Dec 2005)	1,500,000	1,500,000
Securities Industry Research Centre – Infrastructure (1 Jan 2000 – 31 Dec 2002)	-	625,000
International share market education	37,400	37,400
Face to face education (1 Jul 1999 – 30 Jun 2002)	-	1,378,000
TOTAL	12,014,589	17,585,060

15. SUBSEQUENT EVENTS

No matter or circumstance has arisen since the end of the financial year to the date of this report which has significantly affected, or may significantly affect, the operations of the entity, the results of those operations or the state of affairs of the entity in future financial years.

16. FUNDAMENTAL ERROR

There was a fundamental error made in the accounting for the investment in the Schroders balanced fund in the financial year ended 30 June 2002. Schroders provide a statement to the NGF at each reporting date setting out the valuation of the Fund. In prior periods the statements reported the value of the fund on an ex distribution basis. During the financial year ended 30 June 2002 Schroders changed their method of reporting such that the statements reflected a value on a cum distribution basis.

Consequently, the June 2002 distribution of \$2,398,280 was included in the value of the fund at 30 June 2002 and also taken up as distribution income for the year ended 30 June 2002, resulting in the value of the fund being overstated by \$2,398,280 at that date.

The change in reporting, and the resulting error, was detected and corrected in the year ended 30 June 2003. The investment in Schroders is correctly stated in the statement of financial position at 30 June 2003.

The restated financial information for the financial years ended 30 June 2003 and 30 June 2002 are presented below as if the error had not been made:

Pro forma statement of financial performance	2003	2002
	\$	\$
Revenues from ordinary activities		
Interest income – broker trust accounts	2,870,772	2,762,291
Interest income – other	2,041	300
Distributions – Schroders balanced fund	2,776,876	803,722
Distributions – UBS cash plus fund	3,559,342	3,220,018
Realised gains on sale of investment units – UBS cash plus fund	46,404	25,640
Unrealised gains on valuation of investment units – UBS cash plus fund	570,509	647,467
Unrealised gains on valuation of investment units – Schroders enhanced cash management fund	6,738	-
Refund of imputation credits	241,038	278,104
Total revenues from ordinary activities	10,073,720	7,737,542
Expenses from ordinary activities		
Realised losses on sale of investments – Schroders balanced fund	1,685,942	-
Unrealised losses on valuation of investment units - Schroders balanced fund	2,320,075	3,488,976
Audit fees	20,000	21,900
Claims provided	-	300,000
Support staff and administration	615,533	982,683
Total expenses from ordinary activities	4,641,550	4,793,559
Net profit from ordinary activities before distributions	5,432,170	2,943,983
Distributions to Financial Industry Development Account held by Australian Stock Exchange Limited	3,528,353	6,031,211
Net profit/(loss) from ordinary activities after distributions	1,903,817	(3,087,228)

16. FUNDAMENTAL ERROR (CONTINUED)

Pro forma statement of financial position	2003	2002
	\$	\$
Current assets		
Cash assets	75,097	24,772
Receivables	244,157	286,386
Other financial assets - investments	157,782,493	158,680,025
Total current assets	158,101,747	158,991,183
Total assets	158,101,747	158,991,183
Current liabilities		
Payables	10,000	62,396
Provision for claims	-	300,000
Provision for legal and professional fees	-	100,000
Amounts owing to ASX (FIDA)	-	2,039,029
Amounts owing to ASX Operations Pty Limited	105,584	407,412
Total current liabilities	115,584	2,908,837
Total liabilities	115,584	2,908,837
Net assets	157,986,163	156,082,346
Funds		
Retained funds	157,986,163	156,082,346
Total funds	157,986,163	156,082,346

DIRECTORS' DECLARATION

In the opinion of the directors of Securities Exchanges Guarantee Corporation Limited:

- (a) the financial statements and notes of SEGC and the National Guarantee Fund ("the Fund") are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the company and the Fund as at 30 June 2003 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company and the Fund will be able to pay their debts as and when they become due and payable.

Dated at Melbourne this 29th day of August 2003.

Signed in accordance with a resolution of the directors:



CLIVE M BATROUNEY

Chairman

INDEPENDENT AUDIT REPORT TO THE MEMBER OF SECURITIES EXCHANGES GUARANTEE CORPORATION LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes to the financial statements, and the directors' declaration for Securities Exchanges Guarantee Corporation Limited (the "Company") and the National Guarantee Fund (the "Fund"), for the year ended 30 June 2003.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the member of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Fund's financial positions, and of their performances as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit opinion

In our opinion, the financial report of Securities Exchanges Guarantee Corporation Limited, including the separate financial statements of the National Guarantee Fund, is in accordance with:

- a) the Corporations Act 2001, including:
 - i. giving a true and fair view of the Company's and the Fund's financial positions as at 30 June 2003 and of their performances for the financial year ended on that date; and
 - ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.



N T Davis
Partner



Sydney, 29th August 2003